

**Audit Committee
Meeting Minutes
May 9, 2005**

**Kiva Conference Room, First Floor, City Hall
3939 North Drinkwater Boulevard
Scottsdale, AZ 85251**

Members Present: Chairman Lane
Committee Member Ecton
Committee Member Littlefield

City Staff Present: Cheryl Barcala, City Auditor
Lisa Blyler, Assistant to the Mayor and Council
Neal Shearer, Assistant City Manager
Alan Rodbell, Chief of Police
Helen Gandara-Zavala, Administrative Services Director
Steve Garrett, Crime Lab Manager
John Little, Executive Director
Mary O'Connor, Transportation General Manager
Janet Secor, Transportation Department Advisor
Craig Clifford, Financial Services General Manager
Lisa Murphy, Accounting Director
Brad Hartig, Chief Information Officer
Ramon Ramirez, Senior Internal Auditor
Gail Crawford, Internal Auditor

The meeting was called to order at 2:30 p.m. by Chairman Lane.

Roll was taken; all members were present.

Minutes of the April 20, 2005, Audit Committee Meeting were approved. Chairman Lane asked that shorter paragraphs be used in the future.

General Business:

Item 1a – *Management of Tangible Assets:* Ramon Ramirez, auditor in charge of the audit, gave an overview of what was found during audit work. Tangible property was looked at; not computer assets, real property, or fleet assets. Essentially, capital assets and assets below the \$5,000 threshold were reviewed. For capital assets, AR 226 was relied on for criteria. After survey work on non-capital assets, work ceased because it was determined that a universe could not be developed for testing. Progress has been made on tracking and inventorying capital assets.

Chairman Lane stated that the cover letter indicated that expenditures against CIP cost centers could not be traced to the capital improvement plan budget book and this

seemed significant. Mr. Ramirez indicated that the CIP Coordinator position was vacant and historical knowledge was not available. The position is now filled. Mr. Clifford asked what information was needed that could not be obtained from SmartStream. Ms. Barcala stated that the auditor was finding capital cost centers that were open but were not on the capital improvement plan but were in the budget book and those two issues could not be reconciled.

Chairman Lane asked when the City takes items on consignment and puts them in inventory, does the City have possession for insurance purposes. Ms. Murphy stated no, it is the vendor's item until sold. Committee Member Ecton asked if the vendor carries insurance or assumes responsibility. Ms. Murphy stated that she would have to check on this. Committee Member Littlefield asked whose job it is to decide whether it is a problem or not. Ms. Barcala indicated that it should be left to Financial Services or put on an Audit Plan for audit. Committee Member Littlefield asked Mr. Clifford if it was a problem. Mr. Clifford indicated that he would follow up and provide the Committee with that information.

Chairman Lane asked who formulated the responses to the Recommendations, specifically 1 and 2. Mr. Clifford stated that he did with the help of Ms. Murphy. Chairman Lane stated that the responses do not address the issues. Discussion ensued on accounting for assets under \$5,000 with a useful life of more than one year.

Recommendation 6 deals with capital assets over \$5,000. Ms. Murphy stated this was not understood. Mr. Ramirez will rework Recommendation 6 and Ms. Murphy will rework the response before the report is released.

Committee Member Ecton asked Mr. Clifford what other cities do with library collections. Mr. Clifford asked Ms. Murphy to address this issue. Ms. Murphy indicated that cities are taking an exemption in regard to library collections.

Item 1b – Computer Asset Management: Ms. Barcala gave an overview of the audit. No questions were asked regarding this audit.

Item 1c – Bus Card Program: Ms. Barcala gave an overview of the audit. No questions were asked regarding this audit.

Item 2 – Preliminary Work Underway: Ms. Barcala stated that three audits are presently underway. One audit is completed and drafted - **Software Licensing**. The City Auditor's Office is working on the use and collection of the monies used for the downtown assessment for promotions (**EMSD Audit**), the airport fees (**Airport Audit**), and the controls over the monies for replacing computers (**Computer Replacement Audit**). Also, the **Solid Waste Management Reserve Fund Audit** is completed and the draft will be sent to the Committee.

Chairman Lane asked about meeting the May 12 deadline for the EMSD Audit. Ms. Barcala stated that there is a lot of detail work and she is waiting to obtain information

from the surveyors and engineers regarding their scope of work and why assessments are missing. Ms. Barcala will try to have all of the issues to management by May 12. The Background is out to management currently for review and comment. Committee Member Littlefield asked when it would be ready for the Committee's review. Ms. Barcala stated that, if the normal process is followed, management would receive the report by May 17, they would have thirty days to comment, and the Committee would have a draft in June. Ms. Barcala asked if the Committee would like to have discussions on the preliminary issues before the report is sent to management for their thirty-day comment. It was the consensus of the Committee not to bypass the process.

Item 3 – Direction on Police Property Room Audit: Ms. Barcala provided a Status Report given out at the last Audit Committee Meeting.

Committee Member Littlefield asked if all deadlines are being met. Ms. Barcala stated that there are questions. Ms. Gandara-Zavala stated that an Ordinance change is scheduled for the June 7 Council meeting. Chairman Lane asked that the Audit Committee review the change before that meeting.

Chairman Lane asked whether the disposal of the backlog items is in process. Mr. Garrett stated that items are disposed of up to 1985 except for contraband and weapons. Another 70 percent has been identified for disposal up through 1998.

Committee Member Littlefield asked if the same procedures are being employed. Mr. Garrett stated yes. Chairman Lane asked if those processes and procedures are consistent with state statutes. Mr. Garrett stated yes, relatively. Chairman Lane asked if they are consistent with current Code. Mr. Garrett stated that is why the Code is being changed. Discussion followed on amending Ordinance and Code and when and what comes first and how to move forward. The Audit Committee will meet and review a draft of the changes before May 26.

Ms. Barcala asked whether the City Auditor's role regarding the timing and scope of the follow up in the Property Room Audit is complete. Committee Member Littlefield stated yes, unless someone misses a deadline. Ms. Barcala will follow up on due dates.

Chairman Lane asked whether there was a complete Property Room database as indicated in the response to the recommendation. Ms. Gandara-Zavala stated that PD has a barcode system but the physical input of barcodes is not complete. Chairman Lane asked when this would be completed. Ms. Gandara-Zavala stated it would be completed before moving into the new building. Mr. Garrett confirmed that it would be completed before moving to the new RMS computer system. Mr. Garrett stated that it may take twelve months before everything is re-entered into the electronic database.

Chairman Lane asked about the scope limitation of sequentially numbered invoices. Ms. Barcala stated that the auditor could not be certain that all hardcopies of invoices were in the Property Room because there is not a unique number associated with them. Information is input from the hardcopy if they have it but if the hardcopy was missing

and the property that was actually impounded on the hardcopy was missing at the same time, there is no way to identify that. This becomes an issue with testing because the auditor cannot do any kind of random system generated testing because the population of invoices cannot be established. Chairman Lane asked if the scope limitation would go away if they proceed with the database as well as the sequential and unique numbering of the invoices. Ms. Barcala stated that from a point forward there would be a system that could be used, it will never fix what happened in the past.

Ms. Barcala stated that the issue is how long it will be before the unique number will be assigned to a hardcopy invoice. If twelve months passes while waiting to input information from the hardcopy, then there is a potential for the hardcopy to get lost. Mr. Garrett stated that in the future there will no longer be a hardcopy; everything will be electronic. Currently, invoices are done manually. The Property Room Technician picks up invoices, takes them to the Clerk Typist for computer input, and the Property Room Manager takes a random sample to assure invoices are keyed properly. This process is in place until the barcode system can be implemented. Committee Member Littlefield asked Mr. Garrett and Ms. Barcala if new pieces of evidence are being tracked in a way that meets the requirements of the audit. Mr. Garrett stated that he believed they were. Ms. Barcala stated that at present she believes there would still be a scope limitation but would have to see what is actually happening.

Public Comments – None.

Committee Comments – Ms. Barcala stated that action for the completed Solid Waste Audit would take place at the May 17 Council meeting. Ms. Barcala will provide the Committee with a draft report before that date.

Mr. Shearer stated that also on the 17th there is an Action item to address a number of Fire Department Ordinance changes and other changes discussed during the Medical Leave Audit. There will also be a Code change on Self-Funded Insurance and public records. There will be three Code changes in one Chapter.

With no further business to discuss, the public meeting of the Audit Committee was adjourned at 3.53 p.m.

Respectfully submitted,

Gail Crawford